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Office of Public Instruction

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1994

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Office of Public Instruction

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1994



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Office of the Legislative Auditor

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Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

November 1994

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana Office of Public
Instruction for the two years ended June 30, 1994.

The audit was conducted by Anderson, ZurMuehlen and Company, P.C.
under a contract between the firm and our office. The comments and
recommendations contained in this report represent the views of the
firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

Table of Contents

	Elected and Administrative Officials	ii
	Summary of Recommendations	iii
Introduction	Introduction	1
	Background	1
Prior Audit Recommendations	Financial-Compliance	3
	Electronic Data Processing	3
Findings and Recommendations	Federal Compliance	5
Disclosure Issue	County Collections	7
Independent Auditor's Report & Agency Financial Schedules	Summary of Independent Auditor's Report	A-2
	Independent Auditor's Report	A-3
	Schedule of Changes in Fund Balance for the two fiscal years ended June 30, 1994	A-4
	Schedule of Budgeted Revenue and Transfers In Estimated and Actual for the two fiscal years ended June 30, 1994	A-5
	Schedule of Budgeted Program Expenditures and Transfers Out by Object and Fund, Budget and Actual for the fiscal year ended June 30, 1994	A-6
	Schedule of Budgeted Program Expenditures and Transfers Out by Object and Fund, Budget and Actual for the fiscal year ended June 30, 1993.	A-7
	Schedule of Agency Fund Activity for the two fiscal years ended June 30, 1994	A-8
	Notes to Financial Schedules	A-9
Agency Response		B-1

Elected and Administrative Officials

Elected Officials

Nancy Keenan	Superintendent of Public Instruction and Executive Officer for K-12 Vocational Education
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Administrative Officials

Jack Copps	Deputy Superintendent of Public Instruction
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Scott Buswell	Administrator, Information Technology and Support Services
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Gregg Groepper	Assistant Superintendent for Operations
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Gail Gray	Assistant Superintendent for Curriculum Services
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Geralyn Driscoll	Legal Counsel
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Kathleen Holden	Legal Counsel
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Kathy Fabiano	Administrator, Centralized Services
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Summary of Recommendations

The listing below summarizes the recommendations contained in the report and OPI's response thereto.

Federal Compliance

Carl Perkins Subsidiary - We recommend the subsidiary be reconciled to SBAS on a monthly basis to ensure the accuracy of the data.

Agency Response: Concur.

Federal Reporting, Form 272 - We recommend OPI comply with federal regulations concerning the filing date of federal financial reports.

Agency Response: Concur.

Federal Reporting, Form 269 - We recommend the expenditures on form 269 filed with the United States Department of Agricultural agree with SBAS.

Agency Response: Concur.

Internal Controls Over Federal Reporting - We recommend OPI review the internal control system for federal reporting. At a minimum, the reports should be reviewed for accuracy by an individual independent of the preparation of the reports.

Agency Response: Concur.

Subrecipient Monitoring - We recommend OPI comply with the Single Audit Act requirement to obtain and review audited financial statements for all subrecipients that are required to have audits.

Agency Response: Concur.

Introduction

We performed a financial-compliance audit of the Office of Public Instruction (OPI) for the two fiscal years ended June 30, 1994. The objectives of the audit were to:

1. Determine if OPI complied with applicable state and federal laws and regulations which could have a significant effect on the financial schedules.
2. Determine if OPI's financial schedules fairly present the results of operations for the audit period.
3. Recommend improvements in the management and internal controls of OPI.
4. Determine the implementation status of prior audit recommendations.

This report contains seven recommendations to OPI. Other areas of concern deemed not to have a significant effect on the successful operations of OPI programs are not specifically included in the report, but have been discussed with management.

Background

OPI was established by Section I, Article VI of the Constitution of Montana. The Superintendent of Public Instruction is elected to serve a four-year term and is responsible for the general supervision of the public schools and school districts of the state. The superintendent is also the ex-officio secretary of the State Board of Education and the governing agent and executive officer for K-12 vocational education in the state.

OPI personnel indicated they provide services to approximately 163,020 school age children and 9,950 teachers in 495 school districts. OPI provides technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher certification, school accreditation, school curriculum, school finance, and school law. The staff administers a number of federally funded programs and provides a variety of information services.

OPI was authorized 139.23 full-time equivalent employees in fiscal year 1993-94. OPI disbursed approximately \$503.9 million in fiscal year 1992-93 and \$512 million in fiscal year 1993-94 to carry out its various programs. Budgeted and nonbudgeted revenue and transfers in for the General and Special Revenue Funds totaled approximately \$247.2 million in fiscal year 1992-93 and 243.2 million in fiscal year 1993-94. Of this revenue, approximately \$27.3 million in fiscal year 1992-93 and \$27.9 million in 1993-94 was federal assistance. OPI also accounted for

Introduction

approximately \$40.7 million in fiscal year 1992-93 and \$47.9 million in fiscal year 1993-94 of federal pass-through moneys in the Agency Fund. The balance of the disbursements were financed with cash transfers and state General Fund support.

Budgeted expenditures in the General and Special Revenue Funds are detailed by program in the Schedules of Budgeted Program Expenditures and Transfers Out by Object and Fund - Budget and Actual on pages A-6 and A-7 of this report. OPI's legislative appropriations are allocated by program. OPI has two programs that are discussed below.

OPI Administration - This program includes activities related to data processing, word processing, purchasing, legal, payroll, personnel, mail, and analytical and accounting support to operations within the office. It also includes responding to requests for information and data from school districts, the federal government, elected officials, and the general public. This program also accounts for activities involving all federal grants received by the office including costs of administering Elementary and Secondary Education Act Chapter I, Special Education, Vocational Education (K-12), and Title IV (Civil Rights) grants. This program includes teacher certification, accreditation, adult basic education, the film library, drivers' education, school food services, and audiology activities. Reference library functions and school publications are accounted for in this program.

Distribution to Public Schools - The expenditures in this program relate to state and county equalization distributions, state traffic education distributions, distributions of federal funds and grants that allow OPI distribution discretion. Also, this program accounts for activity related to distributions of federal funds passed through to counties and school districts. The Schedule of Agency Fund Activity on page A-8 summarizes the pass-through expenditures.

Prior Audit Recommendations

Financial Compliance Audit Recommendations

The previous financial-compliance audit of OPI for the two fiscal years ended June 30, 1992, contained three recommendations. OPI implemented all three recommendations. The recommendations are summarized as follows:

1. Revise procedures to ensure compliance with state law in disbursing additional state equalization aid.
2. Comply with federal regulations concerning the treatment of capital outlay when calculating maintenance of effort.
3. Ensure the federal financial reports for vocation education grant to states reconcile to the state's accounting records.

Electronic Data Processing (EDP)

In June of 1992 an EDP audit report was issued for the OPI Foundation Program Application. The report contained fifteen recommendations.

A summary of the eleven recommendations implemented as of June 30, 1994 follows:

1. Require periodic evaluation of general controls to ensure security over computer data and information resources in compliance with state law.
2. Improve disaster recovery policies and procedures by outlining step-by-step procedures for hardware and application recovery.
3. Improve disaster recovery policies and procedures by documenting system backup procedures.
4. Revise the change request form to require final approval by user management after a change is complete.
5. Establish formal policies and procedures which ensure electronic access rights are appropriately assigned.
6. Require a review by one or more staff members, independent of development team, of new applications during each development phase.
7. Adequately document development team decisions and actions.
8. Establish policies and procedures which ensure applications developed for OPI are adequately documented.
9. Establish policies and procedures which restrict the use of the Foundation Program's edit override function and require documentation for all overrides.

Prior Audit Recommendations

10. Review the Foundation Program application input edits to ensure compatibility with related preprocessing edits.
11. Establish a target date to create documentation for the Foundation Program application which includes objectives, programs, procedures, changes and testing.

During the 1993 Legislative session the structure of the Foundation Program was changed through legislation. In order to meet the legislative changes and short time demands OPI decided to contract the systems development tasks associated with the Foundation program. KPMG Peat Marwick was selected as the firm to perform systems development work on the Foundation Program.

The implementation date for the Foundation Program Computerized System developed by KPMG Marwick is December 31, 1994. Due to charges enacted during the special session of 1993, the system was still in the development stage on June 30, 1994. Based on the preceding, the following four recommendations were not implemented as of June 30, 1994:

1. Establish written policies and procedures which adequately document the implementation and maintenance of general controls.
2. Document Foundation Program application objectives; manual input, processing, and output procedures; error correction procedures; and processing information.
3. Include batch and electronic control totals in future updates to the Foundation Program application.
4. Ensure the decentralization process of data entry includes adequate application documentation, user documentation, user training, and improved processing controls.

Findings and Recommendations

Federal Compliance

Carl Perkins Subsidiary - The subsidiary system of pass-through funds for the Carl Perkins grant did not agree to SBAS at June 30, 1993. SBAS amounts were used by OPI for federal reporting purposes.

We recommend the subsidiary be reconciled to SBAS on a monthly basis to ensure the accuracy of the data.

Federal Reporting, Form 269 - The June 30, 1993 federal report form 272 filed with the United States Department of Agriculture was filed 10 days late.

We recommend OPI comply with federal regulations concerning the filing date of federal financial reports.

Federal Reporting, Form 269 - The expenditures reported on form 269 for June 30, 1994 filed with the United States Department of Agriculture did not agree to SBAS.

We recommend the expenditures on form 269 filed with the United States Department of Agriculture agree to SBAS.

Internal Controls Over Federal Reporting - During the fiscal year ended June 30, 1994 OPI re-organized the functions performed by the fiscal staff. As a result of the re-organization, the federal reports are prepared, signed and submitted by one individual.

We recommend OPI review the internal control system for federal reporting. At a minimum, the reports should be reviewed for accuracy by an individual independent of the preparation of the reports.

Subrecipient Monitoring - In accordance with the Single Audit Act of 1984 OPI is required to monitor subrecipients of federal funds. Montana Code Annotated (MCA) 2-7-503 indicates local government entities are to submit their financial report to the Department of Commerce within four months of the end of the reporting period. As mutually agreed, the Department of Commerce forwards the financial reports to OPI.

OPI has designed and implemented a monitoring system in which labels are generated for those subrecipients required to submit an audit in accordance with the Single Audit Act. When the audit is received, the label is placed on the report and the report is routed to the appropriate staff for review. During our testing we noted a subrecipient for which a report was not on file by the required date. OPI staff indicated the report had not been received and verified this by indicating the label for the subrecipient had not been used.

Findings and Recommendations

We recommend OPI comply with the Single Audit Act requirement to obtain and review audited financial statements for all subrecipients that are required to have audits.

County Collections

The State of Montana (the State) currently receives significant tax revenues and other monies through the Counties. The funds remitted are deposited in the accounts of the appropriate state agencies. The responsibility for monitoring the accuracy and completeness of the amounts remitted by the Counties is unclear in current state law. In the case of revenues for schools, it appears the Department of Revenue¹, Administration² and Commerce³, as well as OPI⁴, may have some statutory oversight responsibility. However, because the specific provisions are unclear, the State may not be receiving all the monies it is entitled to.

Clarification of the responsibility for monitoring and enforcing the accuracy and completeness of amounts remitted by Counties to the State would require legislation. In amending the current law and/or enacting new law the following should be considered:

A centralized system for monitoring funds remitted by the Counties to the State would allow the responsible individuals to develop the required expertise and provide desired efficiencies in the process.

To be effective, a monitoring process should include the authority to enforce the laws that are being monitored.

This section is presented for disclosure purposes to allow the Legislature an opportunity to consider the issue.

¹ MCA 15-1-201 and MCA 15-1-202

² MCA 15-1-504

³ MCA 7-6-2141
7-6-2203
2-7-503
2-7-506
2-7-515
2-7-522

⁴ MCA 20-9-346 (A)

Independent Auditor's Report & Agency Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS), without adjustments for errors noted during the audit. We issued an unqualified opinion on OPI's financial schedules for the two fiscal years 1992-93 and 1993-94. An unqualified opinion indicates the schedules are fairly stated in all material respects.



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INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Office of Public Instruction (OPI), State of Montana, for the fiscal years ended June 30, 1993 and 1994, as shown on pages A-4 through A-8. The information contained in these schedules is the responsibility of OPI's management. Our responsibility is to express an opinion on these financial schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 1 to the financial schedules, OPI's financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The financial schedules are not intended to be a complete presentation and disclosure of OPI's assets and liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Office of Public Instruction for the two fiscal years ended June 30, 1993 and 1994, in conformity with the basis of accounting described in Note 1.

Anderson Zurmuehlen & Co., P.C.

Helena, Montana
October 19, 1994

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994

	General Fund	Special Revenue Fund	Internal Service Fund
FUND BALANCE, JULY 1, 1992	\$ 0	\$ (13,186,411)	\$ 0
ADDITIONS:			
<u>Fiscal Year 1992-1993</u>			
Budgeted Revenue & Transfers In	10,120	246,965,789	935,870
Nonbudgeted Revenue & Transfers In	837	196,365	
Prior Year Expenditure Adjustments	51,593	50,340	39,780
Support from State of Montana	46,382,341		
Cash Transfers In		178,132,755	
Prior Year Revenue		35,313	
Prior Year Expenditure Abatements		79,958	
Prior Year Transfers		7,318	
<u>Fiscal Year 1993-1994</u>			
Budgeted Revenue & Transfers In	32,125	243,011,793	1,062,424
Nonbudgeted Revenue & Transfers In	628	165,806	
Prior Year Expenditure Adjustments	62,895	1,196,567	
Support from State of Montana	45,202,324		
Cash Transfers In		185,282,042	
Total Additions	<u>91,742,863</u>	<u>855,124,046</u>	<u>2,038,074</u>
REDUCTIONS:			
<u>Fiscal Year 1992-1993</u>			
Budgeted Expenditures & Transfers Out	46,444,891	415,525,823	950,673
Residual Equity Transfer		300,000	
Prior Year Expenditure Adjustments		1,414,725	
Prior Year Revenue Adjustments		388,334	
Cash Transfers Out		156,040	
Nonbudgeted Expenditures & Transfers Out			24,977
<u>Fiscal Year 1993-1994</u>			
Budgeted Expenditures & Transfers Out	45,297,972	417,206,827	1,039,738
Prior Year Expenditure Adjustments		10,815	
Prior Year Revenue Adjustments		71,712	
Cash Transfers Out		159,348	
Nonbudgeted Expenditures & Transfers Out			20,762
Total Reductions	<u>91,742,863</u>	<u>835,233,624</u>	<u>2,036,150</u>
FUND BALANCE, JUNE 30, 1994	<u>\$ 0</u>	<u>\$ 6,704,011</u>	<u>\$ 1,924</u>

The Notes to Financial Schedules are an integral part of this schedule.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF BUDGETED REVENUE AND TRANSFERS IN – ESTIMATE AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994

	Licenses and Permits	Sale of Documents, Merchandise & Property	Taxes	Charges for Services	Investment Earnings	Miscellaneous	Grants, Contracts, Documents & Abandonments	Other Financing Sources	Federal	Total
<u>Fiscal year 1992–1993</u>										
GENERAL FUND										
Estimated Revenue		\$ 20,100								\$ 20,100
Actual Revenue		<u>10,120</u>								<u>10,120</u>
Collections Over (Under) Estimate		\$ <u>(9,980)</u>								\$ <u>(9,980)</u>
SPECIAL REVENUE FUNDS										
Estimated Revenue	\$ 156,000		\$ 152,265,001	\$ 157,000	\$ 1		\$ 66,208	\$ 28,553,483	\$ 37,991,287	\$ 219,188,980
Actual Revenue	<u>156,050</u>		<u>207,646,372</u>	<u>128,274</u>	<u>37,703</u>		<u>16,067</u>	<u>11,682,898</u>	<u>27,298,425</u>	<u>246,965,789</u>
Collections Over (Under) Estimate	\$ <u>50</u>		\$ <u>55,381,371</u>	\$ <u>(28,726)</u>	\$ <u>37,702</u>		\$ <u>(50,141)</u>	\$ <u>(16,870,585)</u>	\$ <u>(10,692,862)</u>	\$ <u>27,776,809</u>
INTERNAL SERVICE FUND										
Estimated Revenue								\$ 435,121	\$ 452,339	\$ 887,460
Actual Revenue								<u>365,464</u>	<u>570,406</u>	<u>935,870</u>
Collections Over (Under) Estimate								\$ <u>(69,657)</u>	\$ <u>118,067</u>	\$ <u>48,410</u>
<u>Fiscal year 1993–1994</u>										
GENERAL FUND										
Estimated Revenue		\$ 35,100								\$ 35,100
Actual Revenue		<u>32,125</u>								<u>32,125</u>
Collections Over (Under) Estimate		\$ <u>(2,975)</u>								\$ <u>(2,975)</u>
SPECIAL REVENUE FUNDS										
Estimated Revenue	\$ 206,000		\$ 164,217,002	\$ 70,400	\$ 25,000	\$ 500	\$ 53,500	\$ 18,983,926	\$ 31,966,935	\$ 215,523,263
Actual Revenue	<u>223,615</u>		<u>202,381,946</u>	<u>67,040</u>	<u>94,534</u>	<u>643</u>	<u>33,170</u>	<u>12,293,966</u>	<u>27,916,879</u>	<u>243,011,793</u>
Collections Over (Under) Estimate	\$ <u>17,615</u>		\$ <u>38,164,944</u>	\$ <u>(3,360)</u>	\$ <u>69,534</u>	\$ <u>143</u>	\$ <u>(20,330)</u>	\$ <u>(6,689,960)</u>	\$ <u>(4,050,056)</u>	\$ <u>27,488,530</u>
INTERNAL SERVICE FUND										
Estimated Revenue								\$ 876,532	\$ 683,688	\$ 1,560,220
Actual Revenue								<u>476,516</u>	<u>585,908</u>	<u>1,062,424</u>
Collections Over (Under) Estimate								\$ <u>(400,016)</u>	\$ <u>(97,780)</u>	\$ <u>(497,796)</u>

The Notes to Financial Schedules are an integral part of this schedule.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT
BY OBJECT AND FUND -- BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1994

	OPI Administration	Distribution To Public Schools	Total
PERSONAL SERVICE			
Salaries	\$ 3,964,757	\$	\$ 3,964,757
Employee Benefits	1,003,151		1,003,151
Total	<u>4,967,908</u>	<u>0</u>	<u>4,967,908</u>
OPERATING EXPENSES			
Other Services	1,412,019	5,208	1,417,227
Supplies & Materials	241,618	2,639	244,257
Communications	290,115		290,115
Travel	586,211	10,398	596,609
Rent	187,564		187,564
Utilities	10,625		10,625
Repair & Maintenance	43,140		43,140
Other Expenses	797,913	1,518	799,431
Total	<u>3,569,205</u>	<u>19,763</u>	<u>3,588,968</u>
EQUIPMENT			
Equipment	268,170	162	268,332
Total	<u>268,170</u>	<u>162</u>	<u>268,332</u>
LOCAL ASSISTANCE			
From State Sources	17,161	447,762,336	447,779,497
Total	<u>17,161</u>	<u>447,762,336</u>	<u>447,779,497</u>
GRANTS			
From State Sources		1,046,121	1,046,121
From Federal Sources	70,227	5,293,625	5,363,852
Total	<u>70,227</u>	<u>6,339,746</u>	<u>6,409,973</u>
TRANSFERS			
Accounting Entity Transfers	476,516	53,343	529,859
Total	<u>476,516</u>	<u>53,343</u>	<u>529,859</u>
TOTAL PROGRAM EXPENDITURES	<u>9,369,187</u>	<u>454,175,350</u>	<u>463,544,537</u>
GENERAL FUND			
Budgeted	4,002,685	146,271,147	150,273,832
Actual	<u>3,562,381</u>	<u>41,735,591</u>	<u>45,297,972</u>
Unspent Budget Authority	<u>440,304</u>	<u>104,535,556</u>	<u>104,975,860</u>
SPECIAL REVENUE FUNDS			
Budgeted	5,948,288	421,098,604	427,046,892
Actual	<u>4,767,068</u>	<u>412,439,759</u>	<u>417,206,827</u>
Unspent Budget Authority	<u>1,181,220</u>	<u>8,658,845</u>	<u>9,840,065</u>
INTERNAL SERVICE FUND			
Budgeted	1,100,796		1,100,796
Actual	<u>1,039,738</u>		<u>1,039,738</u>
Unspent Budget Authority	\$ <u>61,058</u>	\$ <u>0</u>	\$ <u>61,058</u>

The Notes to Financial Schedules are an integral part of this schedule.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1993

	OPI Administration	Distribution To Public Schools	Total
PERSONAL SERVICE			
Salaries	\$ 4,024,740	\$	\$ 4,024,740
Employee Benefits	952,265		952,265
Total	<u>4,977,005</u>	<u>0</u>	<u>4,977,005</u>
OPERATING EXPENSES			
Other Services	1,063,121	6,591	1,069,712
Supplies & Materials	164,465	1,857	166,322
Communications	285,881	45	285,926
Travel	509,665	5,148	514,813
Rent	197,908		197,908
Utilities	12,287		12,287
Repair & Maintenance	99,172		99,172
Other Expenses	751,049	589	751,638
Total	<u>3,083,548</u>	<u>14,230</u>	<u>3,097,778</u>
EQUIPMENT AND INTANGIBLE ASSETS			
Equipment	63,603	1,667	65,270
Intangible Assets	10,898		10,898
Total	<u>74,501</u>	<u>1,667</u>	<u>76,168</u>
LOCAL ASSISTANCE			
From State Sources	18,472	447,817,697	447,836,169
Total	<u>18,472</u>	<u>447,817,697</u>	<u>447,836,169</u>
GRANTS			
From State Sources		1,316,558	1,316,558
From Federal Sources	41,999	5,170,424	5,212,423
Total	<u>41,999</u>	<u>6,486,982</u>	<u>6,528,981</u>
TRANSFERS			
Accounting Entity Transfers	405,283		405,283
Total	<u>405,283</u>	<u>0</u>	<u>405,283</u>
TOTAL PROGRAM EXPENDITURES	<u>8,600,808</u>	<u>454,320,576</u>	<u>462,921,384</u>
GENERAL FUND			
Budgeted	3,540,545	62,884,528	66,425,073
Actual	3,465,270	42,979,621	46,444,891
Unspent Budget Authority	<u>75,275</u>	<u>19,904,907</u>	<u>19,980,182</u>
SPECIAL REVENUE FUNDS			
Budgeted	5,248,026	411,879,954	417,127,980
Actual	4,184,866	411,340,955	415,525,821
Unspent Budget Authority	<u>1,063,160</u>	<u>538,999</u>	<u>1,602,159</u>
INTERNAL SERVICE FUND			
Budgeted	950,715		950,715
Actual	950,673		950,673
Unspent Budget Authority	\$ <u>42</u>	\$ <u>0</u>	\$ <u>42</u>

The Notes to Financial Schedules are an integral part of this schedule.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF AGENCY FUND ACTIVITY
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994

FUND BALANCE, July 1, 1992 \$ 0

ADDITIONS:

Fiscal Year 1992–1993

Budgeted Receipts	40,684,489
Nonbudgeted Receipts	30,856
Prior Year Disbursement Abatements	560,308

Fiscal Year 1993–1994

Budgeted Receipts	47,920,973
Nonbudgeted Receipts	3,702
Prior Year Disbursements	596,420
Prior Year Adjustments	7,686
Total Additions	<u>89,804,434</u>

DEDUCTIONS:

Fiscal Year 1992–1993

Budgeted Disbursements	41,005,566
Nonbudgeted Disbursements	28,890
Prior Year Receipts	239,282
Prior Year Adjustments	1,915

Fiscal Year 1993–1994

Budgeted Disbursements	48,448,029
Nonbudgeted Disbursements	3,702
Prior Year Receipts	75,100
Prior Year Adjustments	1,950
Total Deductions	<u>89,804,434</u>

FUND BALANCE, June 30, 1994 \$ 0

Notes to Financial Schedules

For the Two Fiscal Years Ended June 30, 1994

1. Summary of Significant Accounting Policies

Reporting Entity

The Office of Public Instruction (OPI) is considered an agency within the State of Montana. The financial schedules present the results of operations and changes in fund balances of fund types of only that portion of the funds of the State that are attributable to transactions of OPI.

Basis of Accounting

OPI uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Fiduciary Funds. In applying the modified accrual basis, OPI records:

Revenues when it receives cash or when receipts are measurable and available.

Expenditures for valid obligations when the office incurs the related liability and it is measurable.

The cost of employees' annual leave and sick leave when used or paid.

OPI uses accrual basis accounting for its Proprietary Fund. Under the accrual basis, as defined by state accounting policy, OPI records revenues in the accounting period earned, if measurable and records expenses in the period incurred, if measurable.

Expenditures and expenses may include entire budgeted service contracts even though OPI receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. OPI uses the following types.

Governmental Funds

General - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. OPI's Special Revenue Funds include the Traffic Safety Education, Public School Equalization, Public Instruction Grant Administration, and Grant Clearance - Discretionary Accounts.

Notes to Financial Schedules

Proprietary Fund

Internal Service - to account for providing goods or services to other divisions within OPI on a cost-reimbursement basis.

Fiduciary Fund

Agency - to account for assets held by OPI in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. OPI's fiduciary fund is comprised of one agency fund which is used to record activity of federal programs over which OPI has no discretion as to whom or how much federal funds are distributed.

2. Annual and Sick Leave

Employees at OPI accumulate both annual and sick leave. OPI pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. In the Proprietary Fund, the increase in annual leave and 25 percent of the increase in sick leave is recognized as nonbudgeted expenses when the related liability is recorded at year end. OPI absorbs expenditures for termination pay in its annual operating costs. At June 30, 1994, the office had a liability of \$617,870 for annual and sick leave.

3. Pension Plan

Retirement benefits are provided through the Montana Public Employees' Retirement System (PERS) and the Montana Teachers' Retirement System (TRS). Both plans are cost-sharing multiple employer retirement plans administered by the State of Montana.

PERS - OPI is required to contribute for full-time employees at the rate of 6.70 percent of annual compensation under state statute. Employees are required to contribute 6.70 percent of annual compensation. Part-time employees have an option to belong to the retirement plan, depending upon hours worked. PERS does not segregate financial information for each participating entity.

The total number of OPI employees covered during the years ended June 30, 1994 and 1993 was 100 and 105, respectively. The total payroll for the employees was \$2,620,621 in 1994 and \$2,663,765 in 1993. OPI's contributions were \$207,926 and \$174,487 for the years ended June 30, 1994 and 1993, respectively. The contribution for the year ended June 30, 1994 includes a one-time payment for an early retirement incentive plan of \$32,344. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Members' rights become vested after 5 years of service.

TRS - OPI is required to contribute for full-time employees at the rate of 7.470 percent of annual compensation under state statute. Employees are required to contribute 7.044 percent of annual compensation. Part-time employees have an option to belong to the retirement plan,

Notes to Financial Schedules

depending upon hours worked. TRS does not segregate financial information for each participating entity.

The total number of OPI employees covered during the years ended June 30, 1994 and 1993 was 35 and 36, respectively. The total payroll for the employees was \$1,285,043 in 1994 and \$1,319,646 in 1993. OPI's contributions were \$95,923 and \$98,432 for the years ended June 30, 1994 and 1993, respectively. Benefit eligibility is age 60 with at least five years of service; or 25 years of service regardless of age. Actuarially reduced benefits may be taken at age 50 with at least 5 years of service. Monthly retirement benefits are determined by taking 1/60 times the number of years of service times the final average salary. Members' rights become vested after 5 years of service.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. OPI is unable to determine the actuarial present value of credited projected benefits and net assets available for benefits for PERS and TRS since the information is available only on a total State basis, not agency basis.

The pension benefit obligation at June 30, 1994, for the State system as a whole was \$1,475,985,705 and \$1,586,100,697 for PERS and TRS, respectively. The system's net assets available for benefits at cost on June 30, 1994, were \$1,202,063,252 and \$999,593,170 for PERS and TRS, respectively leaving an overall unfunded pension benefit obligation of \$273,922,453 and \$586,507,527 for PERS and TRS, respectively. OPI's 1994 contribution represented approximately .46 and .25 percent for PERS and TRS, respectively of total June 30, 1994, contributions required of all participating entities. OPI is not responsible for any state system unfunded liability.

Ten-year historical trend information showing the State system's progress in accumulating sufficient assets to pay benefits when due is presented in the system's June 30, 1994, annual financial report.

4. Deferred Compensation Plan OPI's employees are eligible to participate in the State of Montana's deferred compensation plan. The State of Montana administers the plan by contractual arrangement with Nationwide Insurance.

5. General Fund Balance The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

Notes to Financial Schedules

6. Cash Transfer

OPI receives funding from a variety of sources. Some of this money is collected by other state agencies and recorded as revenue by those agencies when received. Examples include corporation license tax and coal tax collected by the Department of Revenue; and interest and other income earned on school land administered by the Department of State Lands. The revenue collected and recorded by others amounted to approximately \$178 million and \$185 million in fiscal years 1992-93 and 1993-94, respectively. To avoid duplicate recording of the same revenue on the state's accounting records, the state's accounting system uses a cash transfer. The cash which the other agencies collected and recorded as revenue is automatically transferred at fiscal year end to OPI's records.

7. Revenue Recognition

Revenue is recognized in the accounting period in which it becomes both measurable and available. Revenue is considered to be available if: 1) it has actually been received and deposited in the state treasury during the fiscal year; 2) the revenue is in the possession of a collecting agent on the last day of the fiscal year and will be received by the state within 60 days after June 30; or 3) the revenue is due for the period ending June 30 but the payer is allowed an administrative lead time of no more than 60 days to process the paper work to calculate the liability and make the remittance to the state.

8. Biennial Appropriation

The 1991 Legislature authorized a \$24 million biennial appropriation from the state General Fund to the state equalization aid account for fiscal years 1991-92 and 1992-93. The office received and expended \$12.1 million during fiscal year 1991-92. None of the appropriation was expended during fiscal year 1992-93.

The 1993 Legislature authorized a \$124 million biennial appropriation from the state general fund to the state equalization aid account for fiscal years 1993-94 and 1994-95. \$100 million dollars of the appropriation is included in the general fund budget on the Schedule of Budgeted Program Expenditures and Transfers Out for the fiscal year ended June 30, 1994. None of the appropriation was expended during the fiscal year ended June 30, 1994.

9. Negative Fund Balance

The Special Revenue Fund reported a negative fund balance in fiscal year 1992-93. OPI shares the state equalization account with the Department of Revenue, the Department of Commerce, and the Department of State Lands. OPI's financial schedules show only OPI's portion of the account. OPI is primarily responsible for the expenditure activity of the program. The combined fund balance, for the four agencies, was positive at June 30, 1993 and 1994.

Agency Response

The Office of Public Instruction

Nancy Keenan
State Superintendent



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(406) 444-7362
FAX No. (406) 444-2893

November 15, 1994

THE LEGISLATIVE AUDIT COMMITTEE OF THE MONTANA STATE LEGISLATURE:

Following is our response to the audit recommendations contained in the Office of Public Instruction's 1993-1994 audit report.

Carl Perkins Subsidiary - We recommend the subsidiary be reconciled to SBAS on a monthly basis to ensure the accuracy of data.

OPI Response: We concur. Controls have been implemented to ensure the subsidiary system for Carl Perkins grants reconciles to SBAS each month end.

Federal Reporting, Form 269 - We recommend OPI comply with federal regulations concerning the filing date of federal financial reports.

OPI Response: We concur. A system is being implemented to ensure that all required fiscal reports are submitted in accordance with federal filing deadlines.

Federal Reporting, Form 269 - We recommend the expenditures on form 269 filed with the United State Department of Agriculture agree with SBAS.

OPI Response: We concur. Controls have been implemented to ensure the expenditures reported on Department of Agriculture form 269 agree with SBAS.

Internal Controls Over Federal Reporting - We recommend OPI review the internal control system for federal reporting. At a minimum, the reports should be reviewed for accuracy by an individual independent of the preparation of the reports.

OPI Response: We concur. The staff reorganization referred to in the audit report was a result of the November 1993 special session, during which six FTE were eliminated in the Office of Public Instruction. One of the positions lost was a full-time Fiscal Officer in the Centralized Services Division. This individual played a vital role in OPI's system

Legislative Audit Committee
November 15, 1994
page two

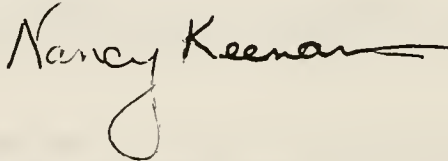
of internal controls and was responsible for providing an independent review of federal fiscal reports. Although the Fiscal Officer's position was eliminated within OPI, we will comply with the auditor's recommendation by assigning this responsibility to another staff member.

Subrecipient Monitoring - We recommend OPI comply with the Single Audit Act requirement to obtain and review audited financial statements for all subrecipients that are required to have audits.

OPI Response: We concur; however, it should be noted that OPI's subrecipient monitoring system is used to notify the Montana Department of Commerce which school districts qualify for an audit under the Federal Single Audit Act. Our system is not used to monitor district compliance with audit report filing deadlines; rather, that responsibility is specifically assigned to the Department of Commerce in 2-7-503, MCA. As a party to all school district audit contracts, the Department of Commerce knows when a particular district's audit report is due and has authority under state law to impose a penalty on districts that fail to submit their report.

We appreciate the opportunity to respond to the audit report.

Sincerely,

Handwritten signature of Nancy Keenan in cursive script.

